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SENSITIVE

FROM AMBASSADOR LINDA WATT TO DHS AMBASSADOR CRIS ARCOS

E.O. 12958: N/A

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SUBJECT: SCENESETTER: AMBASSADOR ARCOS' VISIT TO PANAMA

REF: PANAMA 325

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1. (U) I warmly welcome your March 23-25 visit to Panama. You will have the opportunity to reiterate USG appreciation for the ongoing maritime security cooperation between our two countries, and to press for continuing focus on this as well as aviation security (and increasingly cruise ship security). Your visit highlights our governments' mutual interest in the strategic issues of counterterrorism capabilities, combating international criminal networks, and expanding trade and investment. Designation for Panama as a "distant foreign port" under the Passenger Vessels Services Act (PVSA), possible inclusion of Panama's ports in the DHS Container Security Initiative (CSI), and upcoming negotiations for a bilateral free trade agreement (FTA) with the US will reign paramount in the minds of many of your interlocutors. Cancellation of visas of corrupt public officials may also arise. It is worth noting that Panama was an early member of the Coalition of the Willing, has signed and ratified a bilateral Article 98 Agreement, and supported the USG at the WTO Ministerial in Cancun, Mexico. Panama has proven itself a good friend and ally.

May 2004 Elections

2. (U) Panama will hold its next national elections on May 2, 2004. Candidates are vying for the presidency, 78 legislative seats, and all mayoral and local representative positions. Democratic Revolutionary Party (PRD) candidate Martin Torrijos maintains a small lead over third-party candidate and former Panamanian President Guillermo Endara (1989 to 1994). Both are well ahead of ruling Arnulfista party candidate and former Foreign Minister Jose Miguel Aleman (1999 to 2003) and minor Democratic Change (CD) party candidate Ricardo Martinelli. Panama's elections should not warrant extensive monitoring or observation.

A Mixed Macroeconomic Record

3. (SBU) Since the turnover of Canal operations and US military bases in 1999, Panama has had a mixed record of economic success. The Canal is run more efficiently, safely and profitably than under USG administration. Canal-related industries, especially cargo transshipment through ports at both ends of the Canal, have boomed, as have visits by U.S. cruise ships, which will surpass 200 port calls in Panama this year. But Panama's overall economy went flat when nearly 30,000 US military personnel and their dependents left during the late 1990s, and the 2001 global recession has perpetuated the country's estimated 13.4% unemployment. Also, Panama has failed to attract large investments into the former Canal Zone. Poverty, economic disparity, and unemployment are arguably the biggest internal challenges facing Panama today. Since mid-2003, however, the economy appears to have picked up, primarily as a result of tax incentives given to a now booming construction sector, low interest rates, and a global economic recovery. Panama's growth rate for 2003 is expected to come in at around 4 percent.

Towards a Democratic Culture

14. (SBU) Ambassador Watt's September 29 speech to Panama's Chamber of Commerce, Industry and Agriculture, launching Embassy's Good Governance Initiative (GGI), resonated firmly with Panamanians and generated front-page headlines. Venality, conflict of interest, nepotism, and lack of transparency are ingrained in Panama's political culture and institutions. Panama's "spoils system" allows politicians to use the entire state bureaucracy as a patronage base. The country's criminal libel laws, left over from military rule, impose enormous costs and risks on whistle-blowers. Legislative immunity is often abused, as elsewhere in the region. The Embassy currently supports good governance activities directed toward judicial reform, civic education, business ethics, and strengthening anti-corruption prosecutors' institutional capacity, and is reviewing implementation of President Bush's initiative to cancel travel visas to the United States of corrupt public officials.

Our Third Border

15. (SBU) Panamanians have become increasingly willing to accept military-to-military security training, equipment and other assistance to enhance their capabilities to protect the Canal and borders. Although the present terrorist threat to the Canal is considered low and Panamanian planning, layered defenses and security resources are generally well regarded, the Canal remains vulnerable. Continued U.S. training, equipment and other assistance are vital to preempt a major terrorist attack.

Fighting International Crime

16. (SBU) Law enforcement cooperation with Panama is excellent. The Moscoso Administration set up a new, GoP-interagency counternarcotics vetted unit; expanded upon the basic shiprider agreement to facilitate maritime/air operations in pursuit of drug, arms and explosives smuggling (and may soon include WMD); expedited thirty-eight maritime drug prisoner transfers to USG custody (saving U.S. taxpayers US\$1 million per event); and captured and expelled seventeen fugitives from US justice (most recently, on January 14, Colombian drug kingpin Arcangel de Jesus Henao Montoya, wanted in New York for smuggling five tons of cocaine). Panama is working much more closely with Colombian President Uribe's government against narco-terrorists. The GoP has also welcomed USG assistance-- DoD special operations forces (training National Police (PNP) border units) and AID community development (enhancing productive capacity and governmental presence in the Darien border province).

17. (U) The GoP revamped its legal and administrative structures to fight money laundering, becoming a model for other countries, such as Russia, that are trying to bring their regimes up to grade. Panama assisted the USG in the prosecution of money laundering cases and provided crucial information against former Nicaraguan President Arnoldo Aleman. However, at the 2004 Summit of the Americas in Monterrey, Mexico, several hemispheric neighbors chided Panama for recently granting "asylee" status to a former Ecuadorian cabinet minister, who is charged with embezzlement of government funds.

International Trade and Investment

18. (SBU) Economic issues top Panama's agenda with the United States. First, for political and economic reasons, President Moscoso is pushing for quick negotiation on a bilateral FTA. (Note: the USG announced its intention to negotiate an FTA with Panama in November 2003 at the Miami FTAA ministerial, with a view to begin negotiations during the second quarter of 2004. End Note). Second, the GoP has long argued for Panama's re-designation from a "near foreign port" to a "distant foreign port," under the U.S. Passenger Vessels Services Act (PVSA), in order to capture a larger share of the cruise ship trade. The USG is studying the possibility of a re-designation. The GoP estimates that up to US\$50 million per year could be gained for Panama's growing tourism sector. Third, over the last several months, we have seen a marked improvement in the GoP's willingness to make progress on a number of U.S. investment cases, to address bilateral trade issues, including agricultural concerns, and to enhance cooperation/coordination in regional and multilateral trade fora. The USG has asked Panama to continue its progress on

resolving investment disputes and improving its investment climate through responsiveness to investor concerns, clear rules of the game, predictability, and transparency in decision-making.

19. (U) Panama's \$12 billion economy is based primarily on a well-developed services sector that accounts for approximately 78 percent of GDP. Services include the Panama Canal, banking and financial services, legal services, container ports, the Colon Free Zone (the 2nd largest in the world) and flagship registry. Panama also maintains one of the most liberalized trade regimes in the hemisphere. Bilateral trade with Panama came to \$2.2 billion in 2003. U.S. exports were \$1.85 billion and imports were \$301 million. The stock of U.S. Foreign Direct Investment (FDI) in 2001 was \$25.3 billion. U.S. FDI is primarily concentrated in the financial sector.

Our Maritime Security Agenda

10. (SBU) The 9/11 attacks called significant attention to the potential for terrorist exploitation of Panama's leading maritime position. Panama has the world's largest flag state registry with approximately 6300 vessels over 500 gross metric tons and approximately 300,000 seafarers. Additionally, approximately two-thirds of Canal traffic originates or terminates at U.S. ports, roughly 13% of U.S. seaborne trade. Nearly, 27 percent of foreign-flagged cargo ships arriving at U.S. ports are Panamanian. Moreover, approximately 150 U.S. military vessels, including nuclear-powered U.S. submarines ("high value transits"), visit Panamanian ports and/or transit the Canal each year. Port services have grown dramatically from about 200,000 containers per year in the early 1990s to almost two million by 2002, giving Panama Latin America's leading port complex. (Note: Although a large number of containers transit the Panama Canal, the number that actually are shipped and transhipped from Panama are substantially less -- around 90 thousand.)

11. (SBU) Given these equities, the Embassy, through its Maritime Security Working Group and in coordination with Washington agencies, has undertaken a broad Maritime Security agenda with the GoP. We have seen a strong willingness on the part of the Moscoso Administration for Panama to meet its responsibilities as a major maritime player. Progress has been particularly good since President Moscoso's appointment in June 2003 of Panama's Public Security and National Defense Council ("the Consejo") Executive Secretary Ramiro Jarvis to coordinate maritime security matters. Key components of the agenda include: making Panama's seafarer document more secure, protecting U.S. forces, port security (including for cruise ships), container security, export controls, proliferation security, and strengthening GoP institutions. Progress by the GoP has been good on all of the fronts however, we will have to keep the pressure on the GoP to follow-through, in particular, on ISPS implementation and new seafarer documents. The fact that this is an election year in Panama will not facilitate things, but should also not hinder progress too much.

12. (SBU) On several points of the agenda, the ball is in our court to move ahead. For example, DHS headquarters is currently reviewing language for a Declaration of Principles with Panama for the Container Security Initiative (CSI). A CSI assessment team visited Panama in mid-January and the formal report of outcomes is pending. Additionally, the Coast Guard is exploring the possibility of sending a USCG "audit" team to measure GoP progress towards ISPS implementation and discuss the status of Panama's seafarer document. The Embassy is also reviewing the possibility of using Narcotics Affairs Section funds to support GoP efforts to strengthen cruise ship port security.

Suggested Talking Points

13. (U) Talking points for meetings with GoP interlocutors (additional points for press opportunities will be delivered upon arrival):

- Express appreciation for Panama's excellent cooperation on maritime security.

- Press for continued focus on ISPS implementation.

- Urge for increased attention to airport security at Panama's Tocumen International Airport and security for cruise ships at Panama's main ports.

- Note USG willingness to work with the GoP on initiatives of mutual interest, including cruise ship security and initiatives like CSI.

WATT